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FIN 473.01: Multinational Financial Management

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University of Montana
Fin 473 - Multinational Financial Management
Spring 2004 Syllabus

Professor: Dr. Timothy A. Manuel

Course Title: Multinational Financial Management

Class Time: 2:10-3:30 TTh, GBB L11

Phone: Office 243-2511

Office: GBB 305

Office Hours: 1:00-2:00 & 3:30-4:30 on TTh, or by appointment. Times available by appointment: 10:00-12:00 MW, 1:00-3:00 MW. Come by during office hours at any time, but outside of office hours please try to schedule appointments at least one day in advance.

Email: tim.manuel@business.umt.edu

Web Page: <http://www.business.umt.edu/faculty/manuel/default.asp>

Required Materials:

1. *Foundations of Multinational Financial Management*, latest edition: Allen Shapiro, Wiley Publishing
2. Course notes available on Sentinel in the labs in the Fin473 folder, or available via Blackboard. I recommend that you print the notes, 3 hole punch them and interleave blank sheets of paper with them. The notes are also available from my web page (see above). The username and password are both "finance" (all lower case).
3. You must sign up for Blackboard for this class.
4. You must have access to the Wall Street Journal. I have a signup sheet if you wish to purchase a student subscription.

Course Objective:

The purpose of this course is to provide a firm grounding in the financial skills required of corporate executives in companies engaged in international business. Although we deal with policy issues, the perspective throughout is on the firm and the challenges faced when conducting business across national boundaries. Emphasis will be on the practical application of relevant modern finance techniques and concepts in global settings. Topics covered include financing trade, understanding exchange rates, measuring and managing exchange rate risk, international capital budgeting, financing international projects, and understanding the effects of government policy on the firm's operating environment.

Prerequisites: Students **MUST** have successfully completed Fin 322 and **SHOULD** have completed Mgmt 368 and **MUST** have achieved junior, senior or graduate standing. Additional finance is desirable. Students not meeting the required prerequisites will receive a grade of F regardless of class scores. This may also result in forfeiture of fees paid. All students must show me a transcript indicating you have met the prerequisites by the end of February. Students are strongly encouraged to review basic finance and economics material prior to this course.

Grading: There will be up to three tests, none of which are cumulative except for basic concepts. Grades will be assigned as follows:

| | |
|---|-----|
| Up to three tests & article/case write ups & discussion | 85% |
| Class Participation | 15% |

Class attendance is **required**. If you have more than four unexcused absences I will drop your final grade by one letter. When you don't attend class, you miss out and others miss out on your contributions, regardless of your other scores. Moreover, each succeeding three absences will result in a drop of one additional letter grade. Work, transportation and vacation will not normally result in an excused absence. Documented emergency situations will normally be excused, but they must be cleared as soon as possible. Don't use up your absences on frivolous reasons! I may count leaving class early without permission or not having the assigned notes with you as an unexcused absence.

If you absolutely must miss an exam, you must notify me prior to the exam and provide a written justification for your absence. In the unlikely event of an excused absence, either the remaining tests will be weighted more heavily, or you will take a make-up exam. Make-ups are generally more difficult since the obvious questions are used on the original. The make-up may be an oral exam. No student may miss more than one exam and pass the course; all students must be present at the final test. Any work turned in late will either be not accepted or subject to a 10 point

a day penalty at my option.

Class participation is generally left up to the student, but is encouraged and expected from all students in order to receive credit. Class participation consists of not only coming to class prepared with the proper notes, but also asking and answering questions and contributing constructive comments. I especially like to see questions asked on the article and case presentations. I generally keep track of who asks questions on presentations.

Each student is expected to do his/her own work. Cheating or copying will result in a grade of zero for that assignment. There are no exceptions to this rule. Each student is expected to be familiar with and adhere to the student conduct code. You may use a cheat sheet, 1 page, 8 ½ x 11, both sides on all tests.

**Highly Tentative Course Outline:
Topics May Be Added/Deleted or Reordered As Announced In Class**

- | | |
|---|--|
| A. The Multinational Corporation (MNC) Finance vs. international finance The global/MNC environment Text: Ch. 1 Sentinel File: 1Intro Date(s): | F. International Finance Text: Ch. 12 Sentinel File: None Date(s): |
| B. Definition and Determinants of the Exchange Rate Text: Ch. 2 & 3 & 5 Sentinel File: 2Exch Date(s): | G. Derivatives and Risk Management Text: Ch. 7 and 13 Sentinel File: Ch 7 and 13 DVD Notes Date(s): |
| C. The BOP and International Economic Linkages BOP Why the U.S. has the largest CAD Protectionism Is a CAD bad? Text: Ch. 4 (& 5) Sentinel File: 5BOP Date(s): | H. Capital Budgeting for the MNC Text: Ch. 16 and 17 Sentinel File: Capital Budgeting Date(s): |
| D. Parity conditions in international finance Law of one price Fisher effect Generalized Fisher effect Purchasing power parity Interest rate parity International Fisher effect Text: Ch. 8 Sentinel File: Parity Date(s): | |
| E. Foreign Exchange Markets Terms & characteristics Quotes Locational and triangular arbitrage Text: Ch. 6 Sentinel File: 6FX Date(s): Interlude: Live FX Game Date(s): ? | |

Finance 473, Spring 2003, Professor Timothy A. Manuel

List of readings on reserve in the library -

We will not cover all the readings; the articles may be changed and will be assigned by me.

1. "A Tale of Two Debtors/Debt In Japan and America," "Debt Trap," "Into the Whirlwind," and "Dicing with Debt," Economist, various dates.
2. "Economic Benefits & Risks of Derivative Securities," Keith Sill, Business Review, Federal Reserve Bank of Philadelphia, January/February 1997.
3. "Competitive Advantage of Nations," Michael Porter, Harvard Business Review, March/April 1990.
4. "What Determines the Exchange Rate: Economic Factors or Market Sentiment?" Gregory Hopper, Business Review, Federal Reserve Bank of Philadelphia, September/October 1997.
5. "An Introduction to Non-Tariff Barriers to Trade," Cletus Coughlin and Geoffrey Wood, Federal Reserve Bank of St. Louis, Review, January/February 1989, pp. 32-46.
6. "Evaluation of Manufacturing Investments: A Comparison of U.S. and Japanese Practices," James Hodder, Financial Management, Spring 1986, pp. 17-24.
7. Determinants of the Balance of Trade and Payments, 1997: Published in International Money and Finance, Michael Melvin.
8. "Capital Budgeting for the Multinational Corporation," Financial Management, Spring 1978, pp. 7-16.
9. "Working Capital Practices of the Fortune 200," Financial Practice & Education, Fall/Winter 1996.
10. "Observations of an Importer," Bill Parks, American Business Review, January 1992, pp. 8-15.
11. "The Silent Language in Overseas Business," Edward T. Hall, Harvard Business Review, May/June 1960.
12. "Managerial Barriers to U.S. Exports," Chris Korth, Business Horizons, March/April 1991.
13. "Who Is Us?" Robert B. Reich, Harvard Business Review, January/February 1990.
14. "Who Is Them?" Robert B. Reich, Harvard Business Review, March/April 1991 and German Luxury Cars, Case discussion.
15. "How Honda Localizes Its Global Strategy," Sugiura, H., Sloan Management Review reprint, 1990.
16. "Alternate Routes to Global Marketing," Ohbora, Parsons and Riesenbeck, McKinsey Quarterly reprint, 1992.
17. "The Nature and Management of Foreign Exchange Risk," Niso Abuaf, Journal of Applied Corporate Finance, Fall 1986, pp.30-44.
18. "Identifying, Measuring, and Hedging Currency Risk at Merck," Judy C. Lewent and A. John Kearney, Journal of Applied Corporate Finance, Winter 1990, pp.19-28.
19. "International Credit Market Connections, Steven Strongin, Federal Reserve Bank of Chicago, Economic Perspectives, July/August 1990, pp.2-10.
20. "Managing Currency Exposure: The Case of Western Mining," Peter J. Maloney, Journal of Applied Corporate Finance, Winter 1990, pp.29-34.
21. The International Money Market, 1997: Published in International Money and Finance, Michael Melvin.

22. "The Euro and the European Central Bank," Business Review, Federal Reserve Bank of Philadelphia, Nov-Dec 1999.
23. "The International Monetary Fund 50 Years after Bretton Woods," New England Economic Review, 1994.
24. International Financial Markets, 1998: Published in International Finance, James C. Baker.
25. "Major Functions of International Banks, 1998: Published in International Finance, James C. Baker.
26. "Rethinking the International Monetary System: An Overview," J. Little and G. Olivei, New England Economic Review, Nov/Dec 1999.
27. "Labour Pains," Economist, Sep 23, 2000.
28. "Making More Out of Less: The Recipe for Long-Term Economic Growth," Chatterjee, Federal Reserve Bank of Philadelphia, 1994.
29. "International Investment and Capital Flows," 1997: Published in International Money and Finance, Michael Melvin.
30. "Global Prospects in an Interdependent World," 1991: in World Development Pergamon Press.
31. "Globalisation, Social Conflict and Economic Growth," Rodrik, The World Economy: 1998.
32. "Derivatives Debacles: Case Studies of Large Losses in Derivatives Markets," Kuprianov, Federal Reserve Bank of Richmond, Economic Quarterly: Fall 1995.
33. "1998 Wharton Survey of Financial Risk Management by U.S. Non-Financial Firms," Bodnar, Hayt and Marston, Financial Management: 1998.
34. The Nature and Causes of Foreign Currency Exposure, Pringle and Connolly, in The Corporate Finance Reader.
35. "Why is Europe Forming a Monetary Union?" Eudey, Federal Reserve Bank of Philadelphia," Business Review: 1998.
36. "Multinational Enterprises and Public Policy," Rugman and Verbeke, Journal of International Business Studies: 1998.
37. "Multinationals and the Developing Countries," Wells, Journal of International Business Studies: 1998.
38. "Location and the Multinational Enterprise: A Neglected Factor?" Dunning, Journal of International Business Studies: 1998.
39. "Models of the Multinational Enterprise," Buckley and Casson, Journal of International Business Studies: 1998.
40. "Systematic Risk of the Multinational Corporation," Reeb, Kwok, and Baek, Journal of International Business Studies: 1998.
41. "Do Multinationals Operate Flexibly? Theory and Evidence," Rangan, Journal of International Business Studies: 1998.

42. "Financial Contracting Under Extreme Uncertainty: An Analysis of Brazilian Corporate Debentures," Anderson, Journal of Financial Economics: 1999.
43. "Beyond Shocks: What Causes Business Cycles?" Fuhrer and Schuh, Federal Reserve Bank of Boston, New England Economic Review: 1998.
44. "Maintaining Financial Stability in a Global Economy: A Summary of the Bank's 1997 Symposium, Morris and Parrish, Federal Reserve Bank of Kansas City, Economic Review: 1997.
45. "Strategy in the Multinational Corporation," Ch. 15.
46. "Comparative Financial Practice in the U.S. and Canada: Capital Budgeting and Risk Assessment Techniques, J Payne, W. Heath and L Gale, Financial Practice and Education, Spring/Summer 1999. AND "Capital Budgeting Practices in the Asia-Pacific Region: Australia, Hong Kong, Indonesia, Malaysia, Philippines and Singapore," Financial Practice and Education, Spring/Summer 1999.
47. "Why the Interest in Reforming the International Monetary System?," New England Economic Review, Sept. Oct 1999.
48. "An Introduction to Capital Controls," Review, Federal Reserve Bank of St. Louis, Nov/Dec 1999.
49. "The U.S. Trade Deficit and the "New Economy," Pakko, Federal Reserve Bank of St. Louis, Sep/Oct 1999.
50. Banking Systems Around the World, Hughes and MacDonald, International Banking, Addison-Wesley, 2002.
51. International Retail and Private Banking, Hughes and MacDonald, International Banking, Addison-Wesley, 2002.
52. Offshore Financial Centers, Hughes and MacDonald, International Banking, Addison-Wesley, 2002.
53. Money Laundering, Hughes and MacDonald, International Banking, Addison-Wesley, 2002.
54. "Untangling e-economics," Economist Sep 23, 2000 and "Solving the Paradox: IT," Economist Sep 23, 2000.
55. "Making Globalisation Work for the World's Poor," UK White Paper, Dec 2000, Department for International Development
56. "World Full of Trouble," C. Kurtis, International Business, July/August 1997
57. "The Parable of the Sadhu," B. McCoy, Harvard Business Review, May/June 1997 pp. 54-56, 58-60, 62,64
58. "Changing Unethical Organizational Behavior," R. Nielson, The Executive, May 1989, pp. 123-130
59. "A New Map of the World: Technology vs Ideology," Economist June 24, 2000
60. "Is the Large U.S. Current Account Deficit Sustainable?" J. Holman, Federal Reserve Bank of Kansas City Economic Review, First Quarter 2001, pp. 5-23.
61. "The Controversy Over Free Trade: The Gap Between Economists and the General Public." C. Coughlin, Federal Reserve Bank of St. Louis Review, January/February 2002, pp. 1-21.
62. "Who Cares About Volatility? A Tale of Two Exchange Rate Systems," S Leduc. Philadelphia Federal Reserve Business Review, Quarter 1 2001, pp. 16-25.
63. "The Culture of Liberty," M Llosa Foreign Policy, January/February 2001, pp. 66-71.
64. "Values in Tension: Ethics Away From Home," T. Donaldson, Harvard Business Review, September/October

1996, pp. 48-62.

65. "Ethics are Nice, but Business is Business," J. Krohe, Across the Board, April 1997, pp. 16-22, AND "Can a Company be Too Ethical? A. Singer, Across the Board, April 1993, pp. 17-22.
66. "Overseas Financial Markets, Fan, Srinivasan, Stallaert and Whinston, Ch. 9 in Electronic Commerce and the Revolution in Financial Markets, 2002.
67. "The Creation of the Euro and the Role of the Dollar in International Markets," P. Pollard, Federal Reserve Bank of St. Louis Review, Sep/Oct 2001, pp. 17-36.
68. "Dollarization as a Monetary Arrangement for Emerging Market Economies," G. Antinolfi and T. Keister, Federal Reserve Bank of St. Louis Review, Nov/Dec 2001, pp. 29-39.
69. "Toward WTO 2000: A Seattle Odyssey," J. Schott, Federal Reserve Bank of St. Louis Review, Jul/Aug 2000, pp. 11-23.
70. "A Look Inside Two Central Banks: The European Central Bank and the Federal Reserve," P. Pollard, Federal Reserve Bank of St. Louis, Jan/Feb 2003.
71. "The 'New Economy': Background, Historical Perspective, Questions, and Speculations," B. DeLong and L. Summers, Federal Reserve Bank of Kansas City, Economic Review, 4th Qtr, 2002.
72. "Capital Flows, A Global Survey of Finance," Economist, May 1, 2003.